

Memorandum

*Flex your power!
Be energy efficient!*

To: BILL FACKENTHALL, Chief
Division of Procurement and Contracts

Date: December 29, 2009

CLARK PAULSEN, Chief
Division of Accounting


File: P3010-619

ANN BARSOTTI, Deputy Director
Information Technology

BIJAN SARTIPI, District Director
District 4

ROSS CHITTENDEN, District Director
District 10

CINDY QUON, District Director
District 12


From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Final Audit Report on State Administrative Manual (SAM) Section 20000
Fixed Assets Audit Cycle

Attached is Audits and Investigations' final audit report of the Fixed Assets Audit cycle. The audit was performed as mandated by SAM Section 20000 and the Financial Integrity and State Manager's Accountability Act (FISMA) for the 2008-2009 reporting cycle. Your response has been included as part of our final report. This report is intended for your information and Department Management. As a matter of public record, the report will be included on the Reporting Transparency in Government Web site.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

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|---------------------------|
| P 3010-619 |
| Fixed Assets Cycle |
| December 2009 |

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

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Summary

Audits and Investigations (A&I) has completed the 2008-2009 reporting cycle audit of Fixed Assets as mandated by State Administrative Manual (SAM) section 20000. We performed the audit to comply with the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA), which requires an assessment of whether internal accounting and administrative controls are operating in a satisfactory manner, and communicate the results to management.

Our audit disclosed that the California Department of Transportation's (Department) established policies and internal controls with respect to Fixed Assets need improvement, as evidenced by the following deficiencies:

- The Department Continues to be Out of Compliance with State Inventory Regulations.
- The Department's Property Register is Incomplete and Inaccurate.
- Property Control Weaknesses in District 4.
- Property Control Weaknesses in District 10.
- Property Control Weaknesses in District 12.
- Property Control Weaknesses in Information Technology.

Background

The Division of Procurement and Contracts (DPAC) is responsible for statewide property control coordination for the Department; however, the Department's property control functions are decentralized. DPAC provides advisory guidance to the property controllers (PCs) statewide on how to maintain the expendable and nonexpendable equipment inventories. DPAC is also responsible for maintaining the expendable and nonexpendable equipment property databases in Headquarters' (HQ) divisions. This function is performed by the HQ's PC within DPAC.

Each district, along with the Divisions of Equipment and Maintenance, has a PC who is responsible for: maintaining their own expendable and nonexpendable property database, surveying their own property, coordinating inventory counts, tagging and recording property. At the district level, each Deputy Director is responsible for property control in their respective district.

The Division of Accounting (DofA), Service Transactions and Assets Reconciliation Section (STARS) unit, is responsible for property accounting of the Department's capitalized equipment, fleet, land, and buildings.

Our audit encompassed DPAC, DofA, and included a survey of district PCs. In addition, we tested Districts 4, 10, 12, and Information Technology.

**Background
(Continued)**

The Department has continued to experience problems in its compliance with SAM section 8652 inventory requirements as disclosed in the prior two fixed asset cycle reports dated November 30, 2007, and December 7, 2005. As a result of the prior audit reports, the Department Director issued Departmental Management Memo - Audit and Investigation Alerts (Alerts) on February 29, 2008, and April 3, 2007. The Alerts stated that there were inadequate controls over expendable and nonexpendable equipment and instructed Deputy Directors, District Directors, and Division Chiefs to take corrective actions to meet fixed asset requirements.

**Objectives,
Scope, and
Methodology**

We conducted an audit of fixed assets to determine the adequacy of internal controls.

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of the audit were to determine whether:

- Written policies and procedures exist for acquiring, disposing of, receiving, and recording fixed assets.
- Adequate separation of duties exists over fixed assets.
- Acquisitions and disposals of fixed assets are properly authorized and recorded in the accounting records.
- Recorded fixed assets are in existence, are monitored, and can be readily identified.
- Physical inventory is performed every three years as required by SAM section 8652; and losses and discrepancies are investigated and resolved.
- Subsidiary records are posted accurately and timely and are periodically reconciled to the control accounts.

The audit period was January 1, 2008, through June 30, 2009. The audit focused on internal controls and procedural compliance as they related to fixed asset functions. The audit included tests as we considered necessary to achieve the above audit objectives.

Conclusion

Our audit disclosed that the Department's established policies and internal controls with respect to Fixed Assets need improvement as evidenced by the following deficiencies:

- The Department Continues to be Out of Compliance with State Inventory Regulations.
- The Department's Property Register is Incomplete and Inaccurate.
- Property Control Weaknesses in District 4.
- Property Control Weaknesses in District 10.

**Conclusion
(Continued)**

- Property Control Weaknesses in District 12.
- Property Control Weaknesses in Information Technology.

**Views of
Responsible
Officials**

We requested and received responses from the Chief of DPAC, the Deputy Director of Information Technology, and the District Directors of Districts 4, 10, and 12. These officials have, in general, acknowledged the findings and recommendations. Please see Attachments for complete responses.



GERALD A. LONG
Deputy Director
Audits and Investigations

October 12, 2009
(Last Day of Audit Field Work)

FINDINGS AND RECOMMENDATIONS

STATEWIDE ISSUES

**Finding 1 -
The Department
Continues to be Out
of Compliance With
State Inventory
Regulations**

The California Department of Transportation (Department) continues to be out of compliance with State inventory regulations. The prior audit reports dated, November 30, 2007, and December 7, 2005, found that the Department was not complying with its inventory plan and the State Administrative Manual (SAM) section 8652.

While the Department has made an effort to address the deficiencies noted in the prior audit reports and achieve compliance with SAM, improvements are still needed. Our audit found that many of the conditions identified in the prior audit reports still exist and the Department continues to be out of compliance with SAM section 8652. Specifically, we found the following:

- The Division of Procurement and Contracts (DPAC) continues to lack a central property database to store and monitor the inventory database from the districts.
- The Department's 2009-2012 inventory plan is incomplete. Specifically, the plan does not include an inventory plan from two of the districts and one Headquarters' (HQ) division.
- DPAC's monitoring of the districts' compliance with their inventory plan through the use of annual certifications by district management is inadequate. The purpose and procedures for the required annual certification have not been clarified, documented, formalized, and adequately communicated. As a result, the districts believed that certifications were only to be submitted upon demand by DPAC and, therefore, had not submitted nor prepared the 2009 certification.
- The Property Control Manual (PCM) section 3.1 does not fully incorporate the requirements of SAM section 8643 for lost, stolen, or destroyed property. SAM requires that a property survey report be prepared and contain "a statement that the California Highway Patrol has been notified," whereas, the PCM requires law enforcement notification in the event of theft only, and is silent on the requirements for lost or missing items.
- One district's property database did not have the acquisition date and acquisition amount of equipment as required by SAM section 8650.

Failure to complete a Department-wide inventory and comply with State requirements for fixed asset management increases the risk of loss of

**Finding 1
(Continued)**

State assets and the risk that accounting records do not accurately reflect the physical existence of State property.

The requirements for property accounting and control are set forth in SAM, the Department's PCM, and Accounting Manual. The following sections provide the requirements for the deficiencies identified above:

- SAM section 8652, Property Inventory, requires departments to make a physical count of all property and reconcile the count with the accounting records at least once every three years. In addition, the Department's PCM, section 1.3, Responsibilities, states, "Overall responsibility for statewide property control coordination is provided by the Division of Procurement and Contracts Property Control Unit."
- SAM section 8643, Lost, Stolen or Destroyed Property, requires departments to prepare a Property Survey Report form, STD 152, whenever property is lost, stolen, or destroyed. The report will contain a statement that the California Highway Patrol has been notified.
- SAM section 8650, Accounting and Control for Property, requires departments to record date acquired and cost or other basis of valuation when property is acquired.

DPAC lacks the authority and resources to enforce Department-wide property control. Although DPAC updated the PCM to address Department-wide responsibilities over property control, its oversight responsibilities need further clarification. In addition, the Department does not have a centralized statewide inventory database for fixed asset management as addressed in the prior two audits.

While DPAC does not have the resources to enforce property control, we believe DPAC can provide Department-wide monitoring of the process and report noncompliance to executive management.

Recommendation

We recommend that DPAC:

- Continue working with the Department's executive management team to address the need for a centralized and uniform Department-wide property inventory database.
- Complete the three-year physical inventory plan for 2009-2012 for all districts and divisions.
- Document and formalize the annual certification process, including information on the purpose and procedures.

**Recommendation
(Continued)**

- Ensure that the districts and divisions submit an updated inventory plan along with the required annual certifications to DPAC's Property Control Unit.
- Monitor district and division compliance with the inventory plan and report the status to executive management on a quarterly basis.
- Research the requirements for SAM section 8643 for reporting lost or missing property and adjust the PCM, accordingly.
- Inform the district's Property Control units of the SAM section 8650 requirements for maintaining property records.

**Division of
Procurement and
Contracts' Response**

DPAC was in general agreement with the finding and recommendation. See Attachment 1 for DPAC's complete response.

**Finding 2 -
The Department's
Property Register is
Incomplete and
Inaccurate**

The Department's property records are incomplete and inaccurate. District and division property has not been completely inventoried nor records updated to provide, DPAC and the Division of Accounting (DofA), the information needed for the Department's property records and financial statements. We found:

- The Department did not complete the physical property inventory for the 2006-2009 inventory cycle. Specifically, four districts, one division and one program did not complete their physical inventory. In addition, the Department's property register lists equipment acquired more than 20 years ago with no indication that the property had recently been inventoried.
- Equipment assets recorded on the property register were not always recorded on DPAC's property database.
- HQ's Property Control Unit only reconciles DPAC's property database with the property register for nonexpendable equipment over \$5,000 once every three years. The property register and, by extension, the Department's financial statements could be inaccurate for the years that records are not reconciled.
- DPAC and DofA have not developed a more user-friendly property register as recommended in the prior audit report dated November 30, 2007. The prior audit found that the DofA's property register does not easily match up with DPAC, district, and division property records.
- District records are incomplete and inaccurate as detailed in Findings 3 through 6.
- DofA's property register had the following deficiencies:
 - Nonexpendable items purchased by divisions and districts were not found in the property register as detailed in Findings 3 and 6.

**Finding 2
(Continued)**

- The property register lacks complete information such as inventory dates, equipment descriptions, property tags, and serial numbers. This information is critical for identifying equipment and for reconciliation with the districts' inventory databases.
- The property register, for all HQ's divisions/programs, is not division/program specific, but rather summarized under one district number, District 22.

Inaccurate and incomplete property records increase the risk of loss or equipment theft.

The requirements for property accounting and control are set forth in SAM, the Department's PCM, and Accounting Manual. The following sections provide the requirements for the deficiencies identified above:

- SAM section 8652, Property Inventory, states, "Departments will make a physical count of all property and reconcile the count with the accounting records at least once every three years"
- SAM section 7901, and the Department's Accounting Manual, Chapter 13, section 1 state: "The accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. Reconciliations must be completed between the agency accounts and the accounts maintained by the SCO to disclose errors as they occur. Corrections to errors should be made before financial reports are prepared to partially ensure the accuracy of an agency's financial reports. Properly prepared reconciliations also help to audit the agency's accounting records."
- The Department's Accounting Manual, Chapter 10, section 4.04 states, each quarter, the district Property Controller (PC) will receive Property Register reports from the DofA. The district PC will route these reports to the designated person in each unit. Each district is responsible for confirming that they are in possession of the equipment items listed on their property register. Once the disposition of the equipment item is determined, each district is required to provide updated inventory information to DofA.

Since all districts and divisions did not complete its inventory, DofA did not have complete and accurate data to update the Department's property register. In addition, DPAC's Property Control Unit does not reconcile the quarterly property register for HQ divisions, because they cannot readily identify where items are located throughout HQ divisions.

Recommendation

We recommend that DPAC:

- Ensure that HQ divisions/programs complete their 3-year inventory.
- Ensure that districts complete their inventories and update their records, accordingly.
- Reconcile the property database with DofA property register.
- Ensure that old equipment listed on the property database and property register exists and that the equipment has not been surveyed.
- Continue to work with DofA to develop a more user-friendly property register until a uniform and Department-wide property database is developed.
- Work with DofA to separate HQ divisions/programs' property registers to be division/program specific.

**Division of
Procurement and
Contracts' Response**

DPAC responded that the three-year physical inventory plan 2006-2009 was completed by all HQ divisions and districts. In addition, DPAC was in general agreement with the other findings and recommendations noted above. See Attachment 1 for DPAC's complete response.

Auditor's Response

As noted in the finding above, four districts, one division, and one program did not complete their physical inventory for 2006-2009.

DISTRICT/PROGRAM SPECIFIC FINDINGS

Due to the weaknesses in overall management of the property control function as discussed in Findings 1 and 2 above, we found the following weaknesses in the property control procedures and recordkeeping in the districts and program tested as discussed in Findings 3 through 6 below.

**Finding 3 -
Property Control
Weaknesses in
District 4**

We found the following in District 4 (D4):

- D4 did not perform a complete inventory. In addition, D4 did not have a copy of their 2006-2009 inventory plan.

SAM section 8652, Property Inventory, requires a physical count of all property and reconciliation of the count with accounting records at least once every three years. The inventory plan will include inventory time schedule(s), count procedure(s), and count assignment(s).

- D4 lacks counting procedures resulting in inventory count sheets not having the signature of the person performing the inventory count and the date the inventory count was completed.

**Finding 3
(Continued)**

SAM section 8652 requires that for auditing purposes, worksheets are to be retained and will show the date of inventory and the name of the inventory taker.

- D4's property records are incomplete and inaccurate as noted below:
 - Twenty-three of 84 surveyed equipment items were never recorded in D4's property database.
 - Five of 11 nonexpendable purchases were not found in the DofA Property Register.
 - Items not found during D4's physical inventory were not removed from the property database.

PCM section 1.3, Responsibilities, states that district PCs are responsible within their respective districts to tag, monitor, and inventory all expendable and nonexpendable State equipment/property.

- D4's property database included numerous items with a \$1.00 purchase price. Three items of equipment (full size copiers costing over \$5,000) were listed with a purchase price of \$1.00 and were not included on DofA's nonexpendable property register.

SAM section 8650, Accounting and Control of Property, requires departments to record the "cost or other basis of valuation" when property is acquired.

- Four of 15 items tested did not have a Department tag number.

SAM section 8651, Identification and Tagging, requires all State property to be tagged after acquisition.

- Twelve out of 15 New Equipment Identification and Accountability Records form (ADM 2029) could not be located.

PCM section 2.4 requires the use of ADM 2029 to obtain tags for new acquisitions.

Noncompliance with SAM and PCM increases the risk of loss of State assets and the risk that accounting records do not accurately reflect the physical existence of State property.

D4's PC was not aware of all the requirements of SAM and PCM. In addition, turnover of key personnel within the D4's Property Control Unit and use of a new property database caused confusion with D4's Property

Control staff.

Recommendation

We recommend D4:

- Establish and execute formal policies and procedures for performing a physical inventory.
- Complete the 2009-2012 inventory plan and ensure that the plan is followed.
- Adhere to PCM to ensure that equipment purchases are substantiated with a completed ADM 2029, supported by purchase documents, all equipment is tagged, and the information entered into the property database.
- Ensure that physical counts are reconciled with D4's property database and DofA property register.

**District 4's
Response**

D4 agreed with the finding and recommendation. D4 has developed a workplan to implement a new asset management database. See Attachment 2 for D4's complete response.

**Finding 4 -
Property Control
Weaknesses in
District 10**

We found the following in District 10 (D10):

- Eight laptops identified as missing inventory in the prior audit have not been located.

SAM section 8643 requires that a Property Survey Report, (STD-152), be prepared for lost, stolen, or destroyed property and that the department adjust its property records to reflect the information. In addition, PCM section 1.3 describes the responsibilities of the district PC to include processing all forms dealing with lost, stolen, or destroyed State equipment.

- The 3-year physical inventory for the period 2006-2009 was not completed.

SAM section 8652 requires departments to make a physical count of all property at least once every three years using a rotating inventory calendar/plan, count sheet/listing, and assigned personnel.

- Key property control duties were not properly separated. Specifically, the Chief, Office of Business Management, performed PC functions while the position was vacant and also had purchasing authority; and was a member of the Property Survey Board.

**Finding 4
(Continued)**

To ensure adequate separation of duties, good business practices dictate that the person in charge of purchasing/disposing of inventory will not maintain the inventory records or take the physical inventory count.

- Regular and consistent recording/updating of D10's property database is not performed to reflect equipment acquisitions.

SAM section 8631 requires that purchased assets be recorded at cost, which includes the purchase price plus all incidental costs. In addition, SAM section 8650 requires departments to keep track of State property, whether capitalized or not, in an automated/manual property accounting system. It further requires that property information for each item be compiled in an inventory listing of all departmental property, both capitalized and non-capitalized.

The risk that equipment loss is not detected increases when inventory databases are incomplete and lack current records. Also, when D10's property inventory is not updated with new acquisitions or physically accounted for, D10 is misrepresenting the property count and value when reporting to DofA. Furthermore, the Department takes an unnecessary risk of loss of equipment, when one party is responsible for performing more than one key property control function.

D10's PC is new to the position and was not aware of all the SAM and PCM requirements. In addition, D10 did not have written procedures and did not follow the prescribed procedures in PCM.

Recommendation

We recommend that D10:

- Locate the missing IT equipment or survey the equipment as lost, stolen, or missing following prescribed procedures in SAM.
- Promptly begin the current period physical inventory and update the district property database, accordingly.
- Ensure that the duties related to purchasing and surveying D10's equipment are separated.

**District 10's
Response**

D10 concurs with the findings and recommendations. See Attachment 3 for D10's complete response.

**Finding 5 -
Property Control
Weaknesses in
District 12**

We found the following in District 12 (D12):

- The 3-year physical inventory for the period 2006-2009 was not completed.

SAM section 8652 requires departments to make a physical count of all

**Finding 5
(Continued)**

- The certification of disposition had not been completed for surveyed property.

SAM section 3520.9, Discarded, Scrapped, Recycled, or Dismantled for Salvage, states, "When an agency disposes of State-owned surplus personal property by means other than the sale of the property . . . the agency's responsible employee and unit supervisor shall certify in writing that the disposition has been accomplished. The certification may be made on the STD 152, or attached and filed with the form."

- The DofA property register for the district is inaccurate. Six out of 10 nonexpendable items listed on the property database were not in the property register. In addition, two of 10 nonexpendable items surveyed continue to be on the DofA nonexpendable property register.
- Two of 20 items on the inventory database could not be located.

SAM section 8652, Property Inventory, requires departments to make a physical count of all property and reconcile the count with accounting records at least once every three years. Departments are responsible for developing and carrying out an inventory plan that will include count procedures (type of listing or count sheet to be used) and adjustment and reconciliation of the records will take place after the physical count has been completed.

Noncompliance with SAM and PCM increases the risk of loss of State assets and that accounting records do not accurately reflect the physical existence of State property.

D12 PC stated that automation is needed over the property control function.

Recommendation

We recommend District 12:

- Perform a complete physical inventory of D12's property.
- Complete the certification of disposal for surveyed property.
- Ensure that the physical counts are reconciled with D12's property database and with the DofA property register.

**District 12's
Response**

D12 responded, "the district's three-years (sic) physical inventory plan was in fact completed and supported with information on spreadsheets which was abstract (sic) from the inventory database." The D12 PC will enter the dates in the district's inventory database to reflect the completion of the 3-year plan. In addition, D12 was in general agreement with the other finding and recommendation noted above and

has taken action to update the DofA property register. See Attachment 4 for D12's complete response.

Auditor's Response D12 should retain the spreadsheets used to take inventory and ensure that the date of inventory and the name of the inventory taker are documented in accordance with SAM 8652.

**Finding 6 -
Property Control
Weaknesses in
Information
Technology**

We found the following in Information Technology (IT):

- The IT physical inventory was not performed because IT did not have physical count procedures. IT compared DPAC's count sheets to the computer generated log sheets, rather than completing an actual physical inventory.
- IT does not have count procedures that document how the count will be performed and who will perform it.

SAM 8652 requires the inventory plan to include inventory time schedule(s), count procedure, and count assignment.

- Three of eight nonexpendable items purchased were not found in the DofA Property Register.

SAM section 8652 requires a physical count of all property and a reconciliation of the count with accounting records at least once every three years.

- Eight of 10 of the ADM 2029s were incomplete. The forms were missing signatures, equipment location, or person/unit assigned.

Good internal controls dictate a need for adequate record keeping. In addition, PCM section 2.4 requires the use of ADM 2029 to obtain tags for new acquisitions. PCM section 2.8 requires the use of ADM 2029, when equipment is transferred between districts and divisions.

Inadequate recordkeeping and incomplete physical inventory increase the risk of State asset losses and the risk that accounting records do not accurately reflect the physical existence of State properties.

Recent reorganization in HQ's IT and turnover in DPAC have resulted in the weaknesses stated above.

Recommendation

We recommend IT:

- Establish and execute inventory count procedures.
- Perform a physical inventory of IT's property.

- Reconcile the property database with DofA's property register.
- Ensure that ADM 2029s are completed when requesting property tags.

**Information
Technology's
Response**

IT concurred with the finding and recommendation.
See Attachment 5 for IT's complete response.

Audit Team

Laurine Bohamera, Chief, Internal Audits
Kevin Yee, Audit Supervisor
David Wong, Auditor-in-Charge
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Mary Lam, Auditor
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ATTACHMENT 1

DIVISION OF PROCUREMENT AND CONTRACT'S RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: December 15, 2009

File: P3010-619

From: 
WILLIAM FACKENTHALL
Chief
Division of Procurement and Contracts

Subject: Draft Audit Report on State Administrative Manual (SAM) Section 20000
Fixed Assets Audit Cycle

This is the Division of Procurement and Contracts (DPAC) Response to the Draft Audit Report dated November 30, 2009.

Finding 1 – The Department Continues to be out of Compliance with State Inventory Regulations

DPAC continues to lack a central property database and the Department of Transportation's 2009-2012 inventory plan is incomplete. The use of annual certifications by Districts to monitor inventory compliance is deemed inadequate and requires formalized processes and procedures. Lost, stolen, or destroyed property control procedures do not fully incorporate the requirements of the State Administrative Manual (SAM) section 8652.

Recommendations:

1. Continue working with the Department's executive management team to address the need for a centralized and uniform Department-wide property inventory database.

Response: Although a centralized property database is not a requirement of SAM, DPAC acknowledges the need for a centralized database. The potential is available within EFIS and progress is being made; however the module needs to be integrated into a future phase of EFIS. DPAC will continue to work with the Department's executive management to raise awareness of the need for a centralized property database.

2. Complete the three-year physical inventory plan for 2009-2012 for all Districts and divisions.

Response: All HQ Divisions were aware of the 2009-2012 requirements and have completed their three-year inventory plans with the exception of Radio Communication. District 11 and 4 submittals were received late.

3. Document and formalize the annual certification process, including information on the purpose and procedures.

Response: Proper procedures were relayed to District property controllers in April of 2009, during a quarterly telephone conference meeting. In addition, the Property Control Manual (PCM) and a memorandum will be issued reflecting the revised procedures to ensure the certification process is consistent with SAM, Section 8652 and the Department's current three-year plan.

The current plan only requires certification at the end of fiscal year 2011. In year 2010, the inventory plan must be on file. DPAC does not need certification because we will have the plans on file and will know if this step has been completed.

During year 2011, the Districts, Division of Equipment and Radio Communications will need to certify that they have completed their physical inventories. During year 2012, DPAC does not need certification because we will be receiving information from the Division of Accounting, STARS unit to verify that the reconciliation of property databases with the Accounting Property Register is completed.

4. Ensure that Districts and divisions submit an updated inventory plan along with the required annual certifications to DPAC's property Control Unit.

Response: All inventory plans for the 2009-2012 property inventory cycle are on file at DPAC with the exception of Radio Communication.

5. Monitor Districts and division compliance with the inventory plan and report the status to executive management on a quarterly basis.

Response: DPAC has developed a report framework to monitor Districts and division compliance with the Department's three-year inventory plan. This report will be shared with executive management on a quarterly basis.

6. Research the requirement for SAM, section 8643, for reporting lost or missing property and adjust the PCM, accordingly.

Response: The PCM section 3.1 will be expanded to ensure compliance with the requirements of SAM Section 8643. It will detail the required action to be taken whether the property is lost, stolen or destroyed.

7. Inform the District's Property Control units of the SAM, section 8650, requirements for maintaining property records.

Response: Property Controllers (PC's) will be reminded at periodic teleconferences of their responsibility to accurately record property according to SAM 8650 requirements.

Finding 2 – The Department’s Property Register is Incomplete and Inaccurate

Physical property inventory for the FY 2006-2009 inventory cycle was not completed by all Districts and a division. Inventoried equipment greater than twenty years old still appears on the property register while not appearing or recorded on DPAC’s property database. The property register and the Department’s financial statements could be inaccurate due to HQ’s Property Control Unit only reconciles DPAC’s property database for nonexpendable equipment over \$5,000 once every three years.

Recommendations:

1. Ensure HQ divisions/programs complete their 3-year inventory.

Response: The three year physical inventory plan 2006-2009 was completed by all HQ Divisions and Districts, who are currently at the beginning of the next three-year inventory cycle.

2. Ensure Districts complete their inventories and update their records accordingly.

Response: Districts are currently at the beginning of the 2009-2012 three-year inventory cycle to complete all inventories.

3. Reconcile the property database with Division of Accounting (DofA) property register at least once every three years.

Response: The Department’s three year plan includes a requirement to reconcile the property register at least once every three years.

4. Ensure that old equipment listed on the property database and property register exists and that the equipment has not been surveyed.

Response: Some equipment records on the Department's property register do not have sufficient information to enable reconciliation with property database records. DofA and DPAC will jointly work toward ensuring information is recorded in accordance with SAM Section 8650.

5. Continue to work with DofA to develop a more user-friendly property register until a uniform and department wide property database is developed.

Response: DofA and DPAC will continue to jointly work toward developing a property register that records all information required by SAM Section 8652.

6. Work with the DofA to separate HQ divisions/programs' property registers to be division/program specific.

Response: Modification to the Department's property register to enhance it's user-friendliness and to increase the number of posting Districts has been delayed due to IT resources being redirected to our EFIS Project.

If you have any questions or concerns, please contact Michele Newmarch at (916) 227-6012.

- c: MRettke, Assistant Chief, Architectural and Engineering
JOttens, Office Chief, Warehouse, Policy and Protests
MNewmarch, Branch Chief of Policy

ATTACHMENT 2

DISTRICT 4's RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: December 21, 2009

File: P3010-619

From: BIJAN SARTIPI
District Director,
District 4



Subject: Draft Audit Report on State Administrative Manual (SAM) Section 20000 Fixed Assets Audit Cycle

Attached per your request is the District 4 Work Plan for Fixed Assets. The four findings/recommendations from the recent Audit Cycle are addressed and measures have been taken to ensure that all policies and directives are followed. As stated in the exit interview with my staff, having an inventory plan and completing the physical inventory of our equipment will bring all other issues into compliance.

We are in the process of implementing a new asset management database and phasing out the old obsolete database, which has proven to be insufficient for our needs. This database will contain a complete and accurate record of all District 4 assets.

If you have any questions or need additional information please contact Brian White, District 4, Chief, Office of Business Management at (510) 286-5825.

Attachment

DISTRICT 4 FIXED ASSETS AUDIT CYCLE WORK PLAN

| Task | | Time Period | Staff Assigned |
|---|--|-----------------------|-----------------------------|
| Establish and execute formal policies and procedures for performing a physical inventory. | Plan is currently established. Execution is moving slowly due to limited resources and reduced hours for furlough. | July 2009 – June 2012 | Property Control Supervisor |
| Complete the 2009-2012 inventory plan and ensure that the plan is followed. | Inventory plan is complete and being adhered to. | July 2009 – June 2012 | Property Control Supervisor |
| Adhere to PCM to ensure that equipment purchases are substantiated with a completed ADM 2029, supported by purchase documents, all equipment is tagged, and the information entered into the property database. | As the physical inventory moves along all PCM procedures will be followed. | July 2009 – June 2012 | Property Controllers |
| Ensure that physical counts are reconciled with D4's property database. | The reconciliation process has already begun. Property counts are being verified and inventory information is being transferred from our obsolete database to a new more user friendly property control database. This will allow us to more easily and accurately reconcile with the DOA property register. | March 2010 | Property Controllers |

ATTACHMENT 3

DISTRICT 10's RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: December 16, 2009

From: JULIE DUNNING
Deputy District Director
District 10 Administration

Subject: Response to Draft Audit Report on Fixed Assets Cycle

Your findings:

Eight laptops identified as missing inventory in the prior audit have not been located.

Our response:

Initially, in 2006, 29 property tags were requested by District 10's Information Technology Unit (IT) for the tagging of computers. During the Fixed Asset Audit of 2007 the 29 tags were found in a file in IT and were assumed there to tag 29 laptops purchased by Caltrans' Headquarters. The assumption that 29 laptops were sent to District 10 in 2006 and noted on the Fixed Asset Audit of 2007 is inaccurate. Evidence recently collected reveals that 19 of the 29 laptops were distributed to other Districts, specifically to Districts 1, 3, 5, 6 and HQ. District 10 received 2 of the 29 laptops. We believe that the remaining 8 laptops were also sent to other Districts or HQ. We will request that IT run their Zen Asset Management (ZAM) program to locate them. ZAM is a statewide program that is able to locate computer devices that log into the network. Once located, we will send you the locations of the remaining laptops.

Your Findings:

The 3-year physical inventory for the period 2006-2009 was not completed.

Gerald A. Long
December 15, 2009
Page 2

Our response:

One third of the aforementioned inventory was completed in Fiscal Year 2004/05. Although that inventory was completed, it was not within the three-year-cycle between 2006 and 2009. We have adjusted our new cycle to fit within the next three year inventory period.

Your findings:

Key property control duties were not properly separated. Specifically, the Chief, Office of Business Management, performed PC functions while the position was vacant and also had purchasing authority; and was a member of the Property Survey Board.

Our response:

The backup Property Controller and the Property Survey Board duties will be reassigned to another District 10 staff member. The Chief of Business Management will no longer handle these duties.

Your findings:

Regular and consistent recording/updating of D10's property database is not performed to reflect equipment acquisitions.

Our response:

District 10 has hired a new Property Controller as of February 2009. We have also implemented the use of the Region 2 Property Database. Since these measures have been implemented, regular and consistent recording and updating of the records has occurred and will continue.

c: Ross Chittenden, District 10 Director
Pete Nunes, Office Chief, Business Management

ATTACHMENT 4

DISTRICT 12's RESPONSE

TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: December 16, 2009

File: P3010-619

From: CHRIS GRUZYNSKI
Deputy District Director
Administration

Subject: Audit Report on State Administrative Manual (SAM) Section 20000
Fixed Assets Audit Cycle

The District 12 responses to the Fixed Asset Audit report findings are listed below:

- 1) In the Fixed Assets Audit finding it was note that District 12 did not complete its 3-years physical inventory for the period 2006-2009. The auditors based their findings on the fact that dates for the inventories were not entered in the column "Inventory Dates" in the District's Property Registry Database.

Response: The district's 3-years physical inventory plan was in fact completed and supported with information on spreadsheets which was abstract from the inventory database. Each division completed and supported their findings of items with ADM 2029s "New Equipment Identification Transfer Record" forms when changes were made. The spreadsheets provide the follow up-date information: (CHC No.; Type of equipment; Make; Model; Description; Serial No.; Cost; Cost Center; Office/Branch; Employee; Phone; Location; and Comments noting if a ADM 2029 or the STD 152 "Property Survey Report was attached). The District Property Control personnel will enter the dates in the district's inventory database to reflect the completion of the 3-year plan.

- 2) The DofA property register for the district is inaccurate. Six out of the 10 nonexpendable items listed on the property database were not in the property register.

Response: The district's property control personnel researched this finding. The ADM-2029s "New Equipment Identification Record" was in fact faxed to DofA at the time the items were new and tagged for inventory to be added to the nonexpendable items in the property register. Three of the ADM-2029s were resubmitted to DofA to add to the register. The district will follow-up on the remaining three items and submit the ADM-2029s so they also will be shown on the property register.

- 3) Two of the 10 nonexpendable items surveyed continue to be on the DofA nonexpendable property register.

GERALD A. LONG

December 16, 2009

Page 2

Response: The district's property control personnel researched this finding. The ADM 152/ADM-395 Request for Property Survey was in fact submitted to DofA in December 2008 to remove the items from property register. On December 14, 2009 the two ADM-152 were resubmitted to DofA to remove the nonexpendable items from the property register.

- 4) Two of the 20 items on the inventory database could not be located.

Response: The district's property control personnel will research the location of the items and up-date the property registry database with the current location and contact person information.

Thank you, for the opportunity to comment. All of our corrections should be completed by the first 60 day reporting period.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chris Gruzynski".

CHRIS GRUZYNSKI
Deputy District Director
Administration

ATTACHMENT 5

DIVISION OF INFORMATION TECHNOLOGY'S RESPONSE TO THE DRAFT REPORT


Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Division of Audits and Investigation

Date: December 15, 2009

File: P3010-619

From: ANN BARSOTTI 
Deputy Director
Information Technology

Subject: **Fixed Assets Audit Cycle – Draft Report P3010-619**

Information Technology (IT) received the Draft Audit Report, Fixed Assets Audit Cycle – P3010-619, dated November 30, 2009. As discussed in the Exit Conference held December 1, 2009, the following is our response to the findings.

Finding 6 – Property Control Weakness in Information Technology.

We concur with the finding.

IT will establish and execute inventory count procedures. Once the procedures are in place IT will perform a physical inventory on IT's property. After the physical inventory is completed IT will reconcile the information with the Division of Accounting's property register. Staff will be trained and procedures put in place to ensure that the New Equipment Identification and Accountability Record (ADM 2029) is properly completed when requesting property tags.

IT will work with the Division of Procurement and Contracts, the Division of Accounting, and the Division of Audits and Investigations to ensure that Information Technology has established policies and internal controls as they relate to the fixed asset function.

Should you have any questions regarding this response, please contact Ms. Becky Metz at 654-6603.

c: Kari Gutierrez, Chief, Enterprise Technology Investment Division, Information Technology
Lorine Bohamera, Chief, Internal Audits, Audits and Investigations